

THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

MISCELLANEOUS MATTERS

SELECT STANDING COMMITTEE ON
PUBLIC ACCOUNTS
REPORT



THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

Miscellaneous Matters

**Select Standing Committee on
Public Accounts
Report**







March 8, 2000

To the Honourable,
The Legislative Assembly of
the Province of British Columbia
Victoria, British Columbia

Honourable Members:

We have the honour to present the *Tenth Report* of the Select Standing Committee on Public Accounts for the Third Session of the Thirty-Sixth Parliament. This *Tenth Report* covers the work of the Committee in December 1998 and March 1999 regarding "Public Accounts on the Internet" and "The Office of the Auditor General 1997/98 Annual Report: Auditing in the Public Interest".

Respectfully submitted on behalf of the Committee.

Mr. Rick Thorpe, MLA
Chair

Ms. Evelyn Gillespie, MLA
Deputy Chair

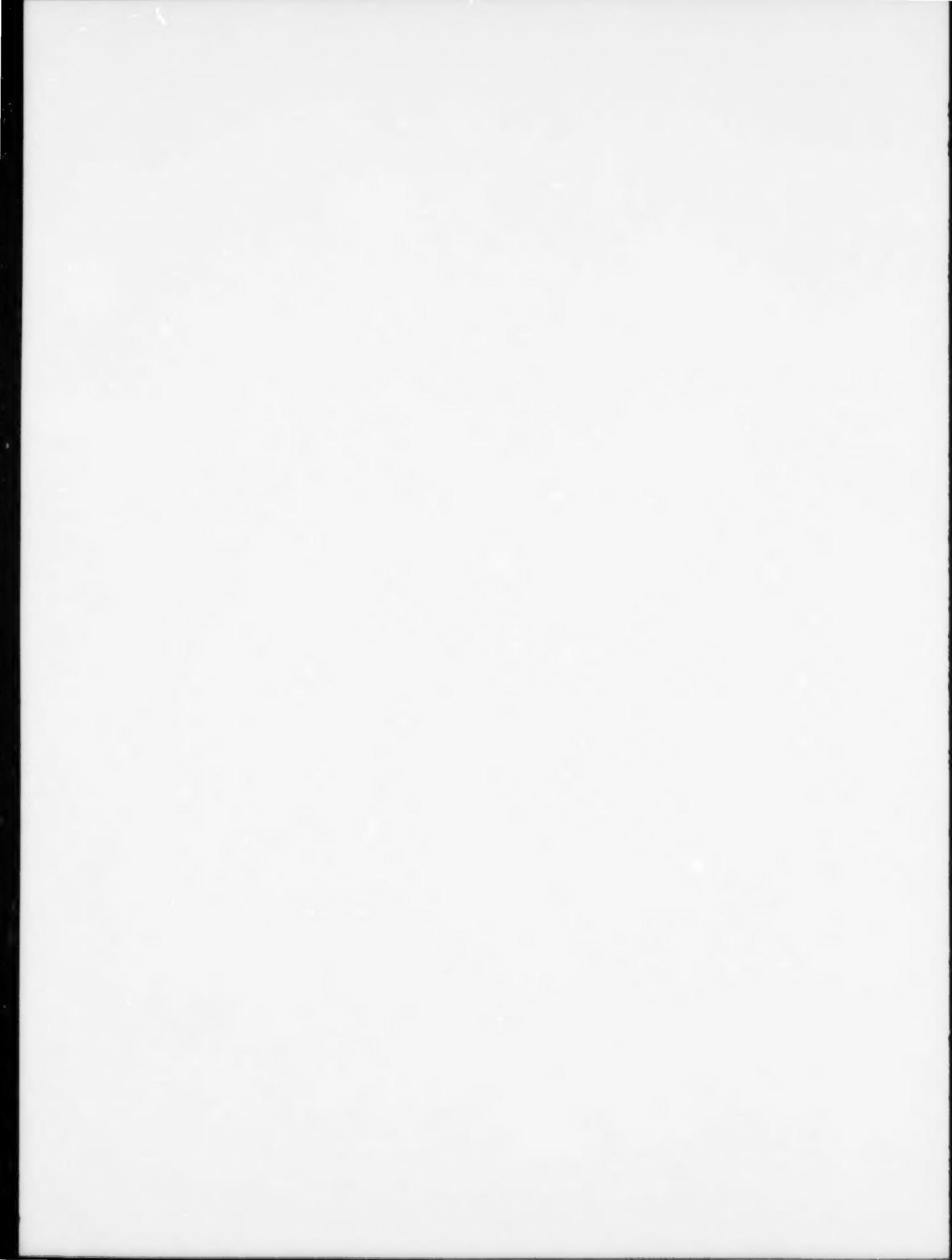


Table of Contents

Composition of the Committee	1
Terms of Reference	3
Public Accounts on the Internet	5
Auditing in the Public Interest	7
Recommendations	15



Composition of the Committee

Members

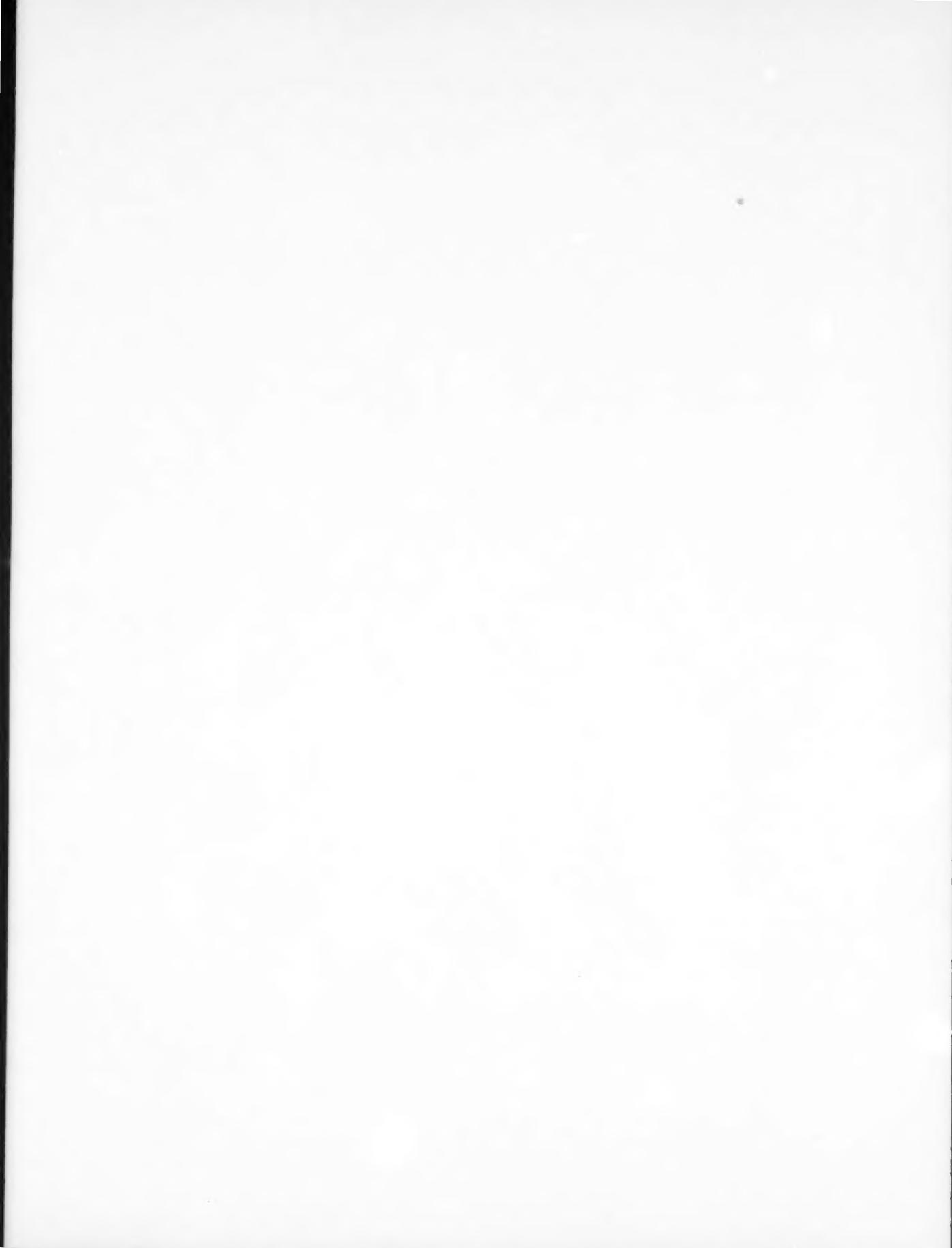
Rick Thorpe, MLA	Chair	<i>Okanagan Penticton</i>
Evelyn Gillespie, MLA	Deputy Chair	<i>Comox Valley</i>
Fred Gingell, MLA (Chair to June 8, 1999)		<i>Delta South</i>
Hon. Moe Sihota, MLA (to June 28, 1999)		<i>Esquimalt-Metchosin</i>
Erda Walsh, MLA (from June 28, 1999)		<i>Kootenay</i>
Pietro Calendino, MLA		<i>Burnaby North</i>
Hon. Jim Doyle, MLA (to November 2, 1999)		<i>Columbia River-Revelstoke</i>
Hon. Helmut Giesbrecht, MLA (to November 2, 1999)		<i>Skeena</i>
Joy MacPhail, MLA (from November 2, 1999)		<i>Vancouver-Hastings</i>
Glenn Robertson, MLA (from November 2, 1999)		<i>North Island</i>
Rick Kasper, MLA		<i>Malahat-Juan de Fuca</i>
Steve Orcherton, MLA		<i>Victoria-Hillside</i>
Murray Coell, MLA		<i>Saanich North and the Islands</i>
Gary Farrell-Collins, MLA (from November 2, 1999)		<i>Vancouver-Little Mountain</i>
John Weisbeck, MLA		<i>Okanagan East</i>
Jack Weisgerber, MLA		<i>Peace River South</i>

Clerk to the Committee

Craig James
Clerk of Committees and Clerk Assistant

Researcher to the Committee

Kelly Dunsdon
Committee Researcher



Terms of Reference

May 7, 1998

That the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:

1. 1997/98 report 1: earthquake preparedness
2. 1997/98 report 2: report on the 1996/97 public accounts
3. 1997/98 report 3: a review of governance and accountability in the regionalization of health services
4. 1997/98 report 4: compliance audits
5. Special report: enhancing accountability for performance in the British Columbia public sector
6. 1996/97 report 11: follow-up of performance audits issued November 1993 to December 1995

July 23, 1998

That in addition to the powers previously conferred upon the Select Standing Committee on Public Accounts the Committee be empowered:

- (a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;
- (b) to adjourn from place to place as may be convenient;
- (c) to sit during a period in which the House is adjourned and during the recess after prorogation until the next following Session;
- (d) to retain personnel to assist the Committee.

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

July 28, 1998

That reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during a period of adjournment during the Third Session of the Thirty-sixth Parliament be deemed referred to the Select Standing Committee on Public Accounts

January 8, 1999

That the Public Accounts for the fiscal year ended March 31, 1998, be referred to the Select Standing Committee on Public Accounts



Public Accounts on the Internet

The Public Accounts of British Columbia are accessible on the Internet, under the URL of www.fin.gov.bc.ca which is the Ministry of Finance and Corporate Relations web page. Currently, information with respect to the fiscal years 1996-97 through to 1998-99 inclusive are available.

Your committee received a demonstration from representatives of the Comptroller General's office on how to access pertinent information.

Your Committee is satisfied with work done by the Ministry of Finance and Corporate Relations to make the Public Accounts of British Columbia accessible on the Internet, and offers no recommendations at this time.



Office of the Auditor General 1997/98 Annual Report: Auditing in the Public Interest

Introduction

The Auditor General derives his authority from the *Auditor General Act*, R.S.B.C. 1996, c. 23, which was originally enacted in 1976. The Auditor General's primary role is to provide assurance and advice about the accountability and performance of government. In doing so, the Office of the Auditor General undertakes audits of government's operational, compliance and financial performance, and is a valuable source of independent information for Members of the Legislative Assembly.

In August 1998, the Auditor General released his 1997/98 Annual Report to the Legislative Assembly, entitled "Auditing in the Public Interest". The report describes the office's role, functions, financial and operating performance, as well as information about future plans and strategic directions. Your committee was pleased to receive a presentation from the Auditor General, George Morfitt, regarding the activities of the office during the fiscal year 1997/98.

Role and Functions of the Office of the Auditor General

Role of the Auditor General

The Auditor General noted that his primary role is to help the Legislative Assembly and the public hold the government accountable, while at the same time trying to improve the efficiency of how government does business.

Your committee also discussed the fact that independence of the office is a crucial element in the Auditor General's ability to provide non-partisan information. In this regard, the committee notes that the Auditor General

is appointed through an all-party committee for a six-year term, which appointment is ratified by the House, and reports directly to the Legislative Assembly. As well, committee members were advised that the Auditor General takes appropriate steps to ensure there is no conflict between office staff and organizations being audited.

Scope of the Auditor General's Work

The Auditor General provided your committee with an overview of the work performed by his office. Members heard that the Auditor General is empowered to review all operations of government-owned and controlled entities, including all Crown corporations, agencies and ministries. As well, the office examines the accountability of public health care organizations and educational institutions in the province.

In particular, the Office of the Auditor General performs the following functions:

1. **Financial audits:** annual audits of the government's Summary Financial Statements and the financial statements of the Consolidated Revenue Fund, Crown Corporations and agencies, and trust and pension funds are conducted;
2. **Performance audits:** management information is gathered directly from government organizations, and performance is assessed. Performance audits are done on a cyclical basis, and address the economy, efficiency and administrative effectiveness of government organizations. Your committee heard that the Auditor General's goal is to be able to examine the operations of all major government programs every 5-6 years, if resources allow;
3. **Compliance audits:** the Auditor General evaluates whether or not programs are being carried out in compliance with legislation, codes of conduct and standards set by government. These audits may also involve investigations of whether codes of conduct are in place.
4. **Accountability for Performance Initiative:** the Auditor General has, in the last few years, made accountability for performance a priority, and has advocated for improved accountability by government organizations through an "Accountability for Performance" initiative.

This initiative involves offering advice on governance issues and working with key players to facilitate understanding and cooperation;

5. **Management Reviews:** the Auditor General also conducts management reviews of government organizations on request from government managers, and offers advisory assistance. Reports arising from this work are not tabled in the Legislative Assembly, but they do form part of the reviewed organization's annual report and are accessible to the public. Office staff are careful to ensure that this assistance does not impede the Auditor General's independence, create any conflicts of interest or overlap with the advisory work already performed by the Comptroller General's office.

How the Auditor General's Work is Carried Out

The Auditor General advised that, given the volume of financial auditing work to be done in the province, the audit process includes the use of private sector firms and auditors. These auditors are utilized either as agents of the office (in cases where the Office of the Auditor General is designated as auditor of record in legislation, such as the *University Act*, R.S.B.C. 1996, c. 468), or are authorized by the office to carry out their work. Committee members heard that, in 1997/98, private sector auditors conducted 73% of financial statement audits.

In 1995 a Memorandum of Understanding was signed with the Ministry of Finance and Corporate Relations, giving the Auditor General an oversight role regarding the appointment of private sector auditors. However, the committee notes that the equivalent of only 2 full-time staff at the Auditor General's office monitor the work done by private sector auditors.

Your committee was made aware that the Memorandum of Understanding also effected changes in the way that expenditures for audit costs are recorded, and now most government organizations (outside of the Consolidated Revenue Fund) pay audit fees, whether audits are conducted by a private sector firm or by the Office of the Auditor General.

Independent Auditor

The Office of the Auditor General has its financial statements audited by an independent private sector auditing firm. Although there are no formal processes in place for independent audits of the office's performance and compliance, the Auditor General has voluntarily brought in private sector auditors to review these areas on an informal basis.

Funding and Resources for the Office of the Auditor General, 1997/98

Your committee discussed the fact that the Office of the Auditor General has experienced a significantly increased workload in recent years: in the last five years there has been a 30% rise in the number of entities to be audited. For example, in 1997/98, the Office of the Auditor General received 12 new audits, including Fisheries Renewal B.C. and Tourism B.C. On the other hand, some audits have been released to private sector firms, such as those of the Legal Services Society, 3 B.C. universities (including UBC and SFU), and 6 community health services societies.

Despite this increased workload, the Auditor General advised your committee that in the last 3 years funding for the office has been reduced by 6%. As well, committee members heard that for the third year in a row, the Minister of Finance and Corporate Relations has ordered mid-year reductions in the amounts approved by the Legislative Assembly for the office.

As a result, from 1996/97 to 1998/99, actual funding decreased from \$6,841,000 to \$6,726,000.

The Auditor General also made it known to the committee that human resources in his office have not been increased in over 14 years. As such, although 95 full-time employees are approved, funding currently provided only allows for 86 full-time employees. This has resulted in unpaid overtime being put in by staff to reduce the gap between actual and approved full-time employee levels.

The Auditor General informed committee members that limited resources are impeding the number of performance and compliance audits that can be done. In particular, most of the office's resources are expended on financial audits, which are mandatory, leaving few resources for performance and compliance audits. As a result, the office was able to complete only 6 performance audits and 4 compliance audits in 1998. While these concerns have been taken to Treasury Board, the 1999/2000 budget for the Office of the Auditor General provides for funding at the same level as for 1998/99. As a result, staffing levels will remain the same for this fiscal year. Your committee did discuss the possibility of the Auditor General undertaking more of the audits currently being done by private sector firms, on a fee-for-service basis, as an option to generate more financial resources. However, given the volume of auditing work to be done in the province, adequate staffing levels may not exist in the Office of the Auditor General to enable it to take on an increased number of audits.

The Auditor General further advised committee members that budgets for Auditor Generals' offices in other Canadian jurisdictions are variable, because some have more restricted powers than others, and therefore comparisons of funding and performance must be done bearing these differences in mind. A recent survey conducted by the Canadian Council of Legislative Auditors ("CCOLA") does indicate that, as of March 31, 1999, the amount allocated to the Office of the Auditor General, expressed as a percentage of the province's budget, was the second-lowest in Canada (the budget for the Office of the Provincial Auditor in Ontario, as a percentage of that province's budget, was the lowest).

Advocating for a new Auditor General Act

The Auditor General pointed out that the current *Auditor General Act* was passed in 1976 and has not been amended to reflect developments made in the last 23 years. As such, it is the oldest unamended legislative auditor statute in Canada. While some of the statute's deficiencies have been temporarily addressed by the Memorandum of Understanding between the Auditor General and the Minister of Finance and Corporate Relations, the Auditor General stressed to committee members that this agreement is not

a substitute for updated legislation. In particular, the Auditor General expressed his view that the following issues should be addressed in amendments to the Act:

- Providing an oversight role for the Office of the Auditor General regarding the auditing of government;
- Establishing the Auditor General's role in the appointment of auditors;
- Clarifying the Legislative Assembly's desire for performance audits – there has been an increased demand for such audits since the statute was enacted;
- Establishing the independent role of the Auditor General;
- Improving the process for approval of the office's budget;
- Reflecting the fundamental operating principles of the office. In this regard, the Auditor General noted that, in a recent review of legislation governing statutory officers in British Columbia, it was found that there was inconsistency in how those various pieces of legislation addressed the fundamental operating principles of statutory officers. A report concerning this and other issues was referred to the Select Standing Committee on Parliamentary Reform, Ethical Conduct, Standing Orders and Private Bills.

Corporate Plan

Your committee was made aware that the Office of the Auditor General has a corporate plan under which 4 strategic directions have been developed guide the work of the office. Those strategic directions are as follows:

1. ***Advocating for Improved Accountability:*** as discussed above in this report with respect to the scope of the Auditor General's work, committee members heard that the Auditor General has been involved in an "Accountability for Performance" initiative. The Auditor General advised that 10% of his office's resources are directed in this area. Work on this initiative is done cooperatively with the Deputy

Ministers' Council, and several reports have been issued. However, progress on this initiative to date has been disappointing due to lack of a coordinated, government-wide effort.

The Auditor General also pointed out that a study group has been set up within the CCOLA to develop public sector accountability reporting principles, and that his office is working with the Canadian Comprehensive Auditing Foundation and the Canadian Institute of Chartered Accountants to develop national publications addressing accountability issues.

2. ***Auditing Government's Accountability:*** the Auditor General told your committee that approximately 50% of his office's resources are dedicated to assessing whether the accountability information provided by government to the Legislative Assembly and the public is fair and reliable. He also advised that in the fiscal year 1997/98, approximately \$1 million in auditing fees were collected from audited entities;
3. ***Auditing Government's Performance:*** Your committee was made aware that 40% of the Auditor General's work is concentrated in this area. However, there is some concern that currently the Auditor General's resources are too limited to be able to audit each key government program on a cyclical basis every 5 –6 years, as would be desirable;
4. ***To ensure the Office of the Auditor General is an effective, well-performing organization:*** the Auditor General told committee members that an outside firm has conducted a survey of Members of the Legislative Assembly and individuals within government organizations. The results of that survey indicated a fairly high satisfaction with the work performed by the office.

The Office of the Auditor General of British Columbia is also chairing a study group of the Council of Legislative Auditors of Canada ("CCOLA"), which has been examining appropriate accountability measures for government audit offices. A planning and coordinating committee has been established within CCOLA, and it is hoped that this new committee will strengthen the way legislative auditors across the country work together and use resources more effectively. Already, a new CCOLA Intranet has been set up to allow for more information-sharing between

legislative auditors in Canada. As well, the CCOLA and the Canadian Council of Public Accounts Committees met in Quebec City in August, 1999, and were able to engage in informative discussions regarding the relationship between Public Accounts Committees and legislative auditors.

Finally, the Auditor General noted that an Operating Plan, logic model and performance measures are currently being developed for his office.

Future Directions

At the time of the committee's deliberation on this topic, the Office of the Auditor General was re-examining the strategic directions of the office, in response to results of internal and external assessments. In this regard your committee notes that in the fall of 1999 a Corporate Plan for 1999-2002 was completed.

Recommendations

1. Your committee advises that it intends to review and discuss with the Auditor General, for information purposes, the revised Auditor General Act being proposed by his office.
2. Your committee recommends that the government review current levels of funding for the Office of the Auditor General, and ensure that the office has an adequate level of human and financial resources to enable it to carry out its auditing functions, including the conduct of performance and compliance audits, and oversight of the work performed on behalf of the office by private sector auditors.
3. Your committee recommends that the Auditor General report annually to the Legislative Assembly on the performance of the office, and that an independent auditor conduct an audit of the accounts of the office and the performance information contained in the annual report, and report within such report.